Questions

and

Answers

about

Canada's Banks

Preface

In this booklet, in question and answer form, you will find some clearly stated facts which reveal the realities of Canada's banking system, which is recognized throughout the world for its soundness and progressive character. This information is offered in the interests of clearer understanding.

Questions and Answers About Canada's Banks

1. **Q.—What is a chartered bank?**

   A.—A chartered bank in Canada is a commercial bank operating under the limitations and restrictions of The Bank Act, and competing with nine others for your business. Definition of chartered bank

2. **Q.—What business?**

   A.—Principally the safeguarding of your money in the form of deposits; mobilizing the savings of millions of Canadians on the one hand, and providing facilities for their bank borrowings on the other; and in addition providing convenient chequing accounts and many other banking services upon which you and the rest of the community rely. Business of chartered banks

   To name a few: safekeeping of valuables and documents; custody of securities, with clipping of coupons and crediting proceeds to customers' accounts; safety deposit boxes; collection of notes, drafts and accounts; issuance and encashment of money orders; commercial and travellers' letters of credit; money transfers to all parts of Canada and foreign countries by mail or telegraph, and many other useful services. Services provided

3. **Q.—How many chartered banks are there in Canada?**

   A.—Ten. Ten banks

Names

4. **Q.—Name them.**

A.—In the order of their coming into existence they are as follows:

Bank of Montreal
The Bank of Nova Scotia
The Bank of Toronto
The Provincial Bank of Canada
The Canadian Bank of Commerce
The Royal Bank of Canada
The Dominion Bank
Banque Canadienne Nationale
Imperial Bank of Canada
Barclays Bank (Canada)

55,731 shareholders

5. **Q.—Who owns these banks?**

A.—55,731 shareholders.

6. **Q.—What kind of people are these shareholders —big shots?**

Shareholders ordinary people

A.—No—just ordinary Canadians like you and me; more than 250 different occupations are represented among the shareholders, chiefly men and women of moderate means who have put their savings into bank shares as an investment.

7. **Q.—You said more than 250 occupations. What are some of them?**

Occupations of shareholders

A.—Accountants, actors, barbers, bankers, bee-keepers, boat-builders, bricklayers, carpenters, cheesemakers, clergymen, dairymen, dentists, doctors, drovers, druggists, farmers, fishermen, forest rangers, funeral directors, grocers, insurance agents, jailers, journalists, linotypists, lumbermen, miners, oil operators, plumbers, policemen, railway employees, ranchers, s a i l o r s, sheriffs, stenographers, stevedores, tobacco farmers, trappers and others.

71 per cent Canadians

More than 71 per cent of the shareholders are Canadians living in Canada. They are well represented in every province.

8. Q.—What is the total of the shareholders' investment in the banks?

A.—At the end of 1948 it had reached $340,000,000. Shareholders' investment

9. Q.—Do shareholders receive large dividends?

A.—No. The dividends paid to shareholders by all chartered banks in 1948 averaged only $4.31 on every $100 of shareholders' funds invested in the business. Net profits of all banks averaged one quarter of one cent on each dollar of their total assets. Few businesses get along on so small a margin.

$4.31 on every $100

Small margin

10. Q.—Why do you say that shareholders receive only $4.31 on every $100 of equity?

A.—The par value of a bank share is fixed at $10 by law. Dividends are declared on this statutory par value, but, in addition to the par value, the shareholders have put into the business more than as much again.

11. Q.—Please explain that.

A.—Shares in the banks—at the time of issue—were sold above par. The shareholder may have invested as much as $200 for a share then bearing a fixed legal par value of $100. His first $100 became part of the bank's capital, and the premium he paid above par went to a reserve fund for the added protection of depositors. In addition, the shareholder, over the lifetime of the bank, has left in the business each year some undivided profits. These sums, accumulating over all the years since the bank was founded, have been added to the reserve fund and have thereby increased the equity the shareholder has in the business.

Dividends related to equity

12. **Q.—And stated briefly?**

A.—The shareholder's equity, then, is the sum total of: the par value of the stock, the premium the shareholder paid over and above the par value of the stock, and some undivided profits left in the business over a long period of years.

13. **Q.—Who manages the banks?**

Management of banks

A.—Experienced men who rose from the ranks of junior officers. Each bank has its general manager, assistant general managers, executive staffs, branch managers and their assistants. Advance has been made on the basis of ability, character and understanding of how to make banks useful as well as sound.

Directors

14. **Q.—Who are the directors?**

A.—Representatives of the shareholders elected by ballot at each annual meeting. The directors appoint the management of the bank and otherwise act as do the directors of any company. No man may be a director of more than one bank.

A custodian of money

15. **Q.—A chartered bank is really a custodian of my money. Is that correct?**

A.—A chartered bank is not only the custodian of your money on deposit, but also is the guardian of your confidential affairs concerning that money and the transactions relating to it.

16. **Q.—So that is why my bank account is safe at present from prying eyes?**

Secrecy

A.—Yes, every bank employee on entering the service of the bank must sign a declaration of secrecy concerning customers' affairs. Some banks emphasize the importance of this by requiring employees to renew the declaration year by year. This strict secrecy is one of the foundations of our present banking system.

17. **Q.—Why is it called a "chartered" bank?**

A.—Because it derives its permission to do business, under certain conditions and restrictions, from a "charter" granted and kept up to date by Parliament. A bank's charter is the Act of Parliament entitled "The Bank Act," in which is laid down the conditions under which the banks must operate. Banking services are adapted from time to time to serve the new needs in the country's changing economy. **Why "chartered"**

18. **Q.—How are changes in banking effected?**

A.—By periodical revisions of The Bank Act conducted on the advice of a Committee of 50 or more members of the House of Commons, and of a Committee of the Senate. Seven times since 1871 The Bank Act has been revised by Parliament. Each periodical revision has altered or expanded the banking system to meet some new need. The latest revision took place in 1944. **Bank system flexible**

19. **Q.—Is it correct that revisions take place every ten years?**

A.—Generally speaking that is so. **Decennial revision**

20. **Q.—You say that the banks compete for my business. In what ways do they compete?**

A.—Your account means earnings for your bank—every other bank would like to have it. If you are a borrower for personal or business reasons, banks vie with each other in matters of service and promptitude. If they are handling your business collections, they compete in skill, speed and efficiency. Competition is the life of trade and each bank endeavours to outdo the others in rendering service to you and to the country. Of course, there could be no such competition under nationalization. **Competition**

21. Q.—You say there are conditions and restrictions in bank charters. Does that mean there are certain classes of business that banks are prohibited from doing?

Charter restrictions

A.—Yes.

22. Q.—What CAN they do?

What banks can do

A.—Primarily the banks are organized to receive as deposits the savings of millions of people from one end of Canada to the other and to make credit available to those who look to the banks for this assistance in their financing.

23. Q.—Credit for what purposes?

Credit

A.—Banks extend credit to producers, to business and to individuals and municipalities, corporations, institutions and Dominion and provincial governments for their legitimate needs. For instance, the farm cooperatives, the wheat pools and dairy pools use the banks' facilities—these and countless individuals.

24. Q.—Do banks make small loans?

Small loans

A.—More than half of the total number of bank loans in Canada are for amounts of $500 or less.

25. Q.—So the banks do not serve large interests alone?

A.—Of course not. The answers to the last two questions and the thousands who borrow from the banks prove that.

26. Q.—What kind of business are banks prohibited from doing?

Prohibited business

A.—A bank may not engage in trade. It cannot buy or lend against its own shares or those of any other chartered bank. It cannot lend initially on mortgages. It cannot let its name appear on certain prospectuses. It must not permit its staff to represent insurance companies. There are heavy penalties provided in The Bank Act in case of violation.

27. **Q.—You say that banks cannot engage in trade. Does that mean that a bank does not initiate business activity?**

Borrower takes initiative

A.—Exactly. A bank cannot buy or sell goods or operate as a commission agent for goods, thus competing with commercial houses. The banks encourage and facilitate business activity but do not of themselves initiate it. A bank would not take a million dollars, for instance, put it into the hands of Mr. John Jones, and say in effect, "Mr. Jones, here is a million dollars, go and start a factory." The borrower always does, and always must, take the initiative, whether the borrower be a government, a corporation or a person. Business activity or manufacturing ventures must be started by individuals or by groups of individuals banded together in companies.

28. **Q.—What is the main idea of these restrictive provisions you have mentioned?**

Protection of depositors

A.—Parliament seeks as far as possible to protect the interests of depositors and to keep money from being tied up in undue quantities of goods which may be subject to price fluctuations, or "frozen" in real estate.

29. **Q.—I have heard it said that bank loans cannot be obtained on the security of land free of encumbrance. Is that so?**

No loans on land

A.—The Bank Act expressly prohibits the banks from lending on the security of real estate. Banks cannot initially take mortgages as security for loans, but that is not to say that an owner could not borrow on his credit standing alone, or on some other acceptable basis.

30. Q.—What other controls safeguard the interests of depositor and borrower?

Safeguards

A.—Every bank has to make returns to the government periodically and also to the Bank of Canada along the lines specified in The Bank Act or in other regulations. Certain of these returns are laid before Parliament itself and there are severe penalties provided for any errors in these returns. Each bank is subject also to the continuous scrutiny of two auditors elected by the shareholders and approved by the government. These auditors make an annual audit and their report is submitted to the shareholders. In addition there is an officer of the Department of Finance, the Inspector-General of Banks, who must inspect each bank periodically.

31. Q.—Do the banks comprise the whole of Canada's financial system?

Banks only one element in system

A.—Some people assume that the banks ARE the whole financial system. Of course they are not. They are only one element in Canada's financial system, an important element, it is true.

32. Q.—Then, what really is Canada's financial system?

Financial system

A.—The Bank of Canada, the chartered banks, the Industrial Development Bank, the savings banks, the insurance companies, the trust, mortgage and loan companies, the investment dealers and other financial organizations. The 10 chartered banks are the country's commercial banking system. Their work chiefly is to act as depositories, and to assist in keeping the wheels of production, industry and business moving — to furnish the credits that enable wages to be paid, goods to be transported and commodities to be sold.

33. Q.—Roughly what are the several functions of the agencies other than the chartered banks?

Functions of other agencies

A.—The Bank of Canada, the government's central bank, is the instrument through which the nation's monetary policy, as determined by the people's elected representatives, is given effect. The insurance companies collect the premium savings of millions of policyholders and under certain conditions and restrictions invest them at interest in government and other securities and lend on mortgages. The lending is of longer term than bank lending. The investment dealers deal in government and municipal bonds and in the securities of industry, business and other institutions. Venture capital is furnished largely by very large numbers of Canadian people who have savings and who want to invest in new developments—such as industrial and other enterprises, the mines across Canada, the oil fields of Alberta and elsewhere—in the hope of a return commensurate with the risk involved.

34. Q.—What is the function of the Industrial Development Bank?

Industrial Development Bank

A.—Its purpose is "to ensure availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular reference to the financing problems of small enterprises." That is the way it is stated in the preamble to the Industrial Development Bank Act, which created this addition to the nation's financial system in 1944. In effect this means that the Industrial Development Bank

Loans for longer terms

lends over a somewhat longer term than is customary with the chartered banks and the Industrial Development Bank is able to take certain types of security not legally open to the chartered banks.

35. **Q.—What special type of financing does each of these institutions do?**

Special types of financing

A.—The banks supply the short-term working capital, payroll accommodation, money for the purchase of materials, loans against goods in process of manufacture, and loans to farmers, lumbermen, fishermen, marketing agencies and the like. Long-term money for capital investment is furnished through the insurance companies, the investment dealers, mortgage companies, trust and loan companies, the Industrial Development Bank and other long-term credit agencies. Money for ventures is furnished usually by the public which buys stocks; the stock exchanges furnish a means whereby holders of these shares may trade in them.

36. **Q.—What about the other financial organizations you mentioned?**

A.—Provincial government savings offices and other savings banks take in savings and invest them in suitable securities. Caisses Populaires and Credit Unions are forms of cooperative organization to promote thrift and lend money in small sums to the members under certain conditions.

37. **Q.—You were speaking of the Bank of Canada. What is the purpose of the Bank of Canada?**

Function of Bank of Canada

A.—You can find the best answer in the preamble to the Bank of Canada Act, which says that the central bank is established:

"To regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion."

38. Q.—In seeking to give effect to those principles does the Bank of Canada have the co-operation of the chartered banks?

A.—Decidedly yes.

Co-operation of banks

39. Q.—Can you give an example?

A.—One such example is illustrated in the words of the Minister of Finance (Rt. Hon. J. L. Ilsley) who, on February 27, 1946, in an official statement said:

"Following discussions between the government, the Bank of Canada, and the chartered banks, the banks have agreed that their holdings of Dominion government domestic bonds (including guaranteed issues) will not average more than 90 per cent of the amount of their Canadian savings deposits (i.e. their notice deposits other than balances of corporations). The banks have also agreed that their earnings on such Dominion government bonds held for investment account should not exceed their operating costs on Canadian savings deposits in the form of deposit interest and other expenses by more than a moderate profit margin for this type of banking business."

The net effect of this is that on the proportion of savings deposits which the banks invest in government securities in pursuance of that agreement the rate of earning is low. An official statement published in The Canada Gazette in 1949, covering bank earnings for 1948, shows that the net earnings on these Dominion government bonds related to the savings agreement was only three one-hundredths of one per cent, before income taxes.

40. **Q.—Are there any other recent instances of co-operation between the chartered banks and the Bank of Canada?**

A.—Yes. The banks cooperated early in 1948 in efforts to avert certain potential inflationary tendencies in an unusual surge of borrowing from banks for capital investment and inventory purposes during the reconversion of Canada's industry from a wartime to a peacetime footing. The governor of the Bank of Canada, testifying before the House of Commons Committee on Prices, on May 27, 1948, said:

> "There is one point I should like to mention in connection with the activities of the central bank and that is the extent to which we maintain touch with and have consultations with the commercial banks; that has been a constant, periodic thing ever since the Bank of Canada started. Last year, about the middle of the year or slightly later, we did take occasion to express the view to the chartered banks that a conservative attitude in regard to loans was desirable. We had in mind that the banks would want in their own interests and in the interest of their clients, to scrutinize the position of inventories and receivables rather carefully and try to insure that excessive inventories were not built up. The banks, I am sure, had that in mind even before the specific talks we had on that subject on various occasions in 1947.

"Later on, in February, 1948, having in mind not only the scale of capital investments during 1947 but also some indication which it was then possible to get in regard to intentions for 1948, we did express the view to the banks that under existing conditions, when the rate of capital investment is pressing on relatively scarce supplies of manpower and materials, it was undesirable to finance capital expenditures through the expansion of bank credit. There again, I believe, the views which we expressed coincided with and carried the judgment of the banking system."

Loans "create" deposits theory

41. **Q.—Now, getting back to ordinary bank lending —some people hold the idea that bank loans "create" deposits and that the banks are therefore able to create their own resources at will. Is that so?**

A.—An effective answer was supplied to a committee of Parliament by the governor of the Bank of Canada when he said:

Mr. Towers' statement

"I have always believed . . . that the people who discuss the 'creation of deposits' as if it were a highly valuable privilege of the banks, think of bank deposits as an asset; and they therefore believe that the banks can create assets for themselves. That would indeed be a valuable privilege. In fact, however, while a bank deposit is an asset for the individual owner, it is a liability so far as the bank is concerned. It might save confusion then if we talked of banks creating liabilities—a thing any one of us can do if we have a reputation good enough to persuade someone to sell us goods on credit."

Every deposit a liability

and also:

"I have always felt that there was an absolutely fatal misunderstanding in regard to the banking system as a whole, and that fatal misunderstanding arises from the thought that deposits are assets and that notes are assets. Now, so long as that thought is even in the background of people's minds, any discussion of banking gets on a topsy-turvy basis, because they are liabilities."

42. Q.—Then clearly a bank's deposits are its liabilities?

A.—That is so; they are debts of the bank owed to the bank's customers who leave their funds on deposit. They are also expensive from the standpoint of the bank, since they involve important accounting and servicing costs and, in the case of savings deposits, interest must be paid on them.

43. Q.—The other side of the story, I suppose, is that these same deposits are the public's cash assets?

A.—Exactly so, and these deposits constitute the greater part of Canada's money supply.

44. Q.—Is there anything further you can tell me about loans "creating deposits"?

Further statement by Mr. Towers

A.—Yes. The governor of the Bank of Canada, before the Banking and Commerce Committee of the House of Commons, an March 31, 1939, said:

"People have been assuming that when a bank creates a deposit that it is an asset of the bank. On the contrary the bank goes through the painful process of creating a liability, which any of us can do within our power . . . Unfortunately you cannot use your liability to buy anything. The deposit you have with the bank is its liability. It cannot use its liabilities to buy something."

45. Q.—Again apropos of the idea that a loan creates a deposit, the late Rt. Hon. Reginald McKenna, former Chancellor of the Exchequer in England and Chairman of the Midland Bank, is often quoted as authority for one of the oft-misconstrued statements to the effect that banks create money out of nothing. Have you any answer to this?

A.—Yes, and from one of the late Mr. McKenna's own works, "What is Banking?" in which he said: "It is clear from what has been said so far that, while any one bank may in the course of the day's transactions gain deposits and cash from, or lose deposits and cash to, any other bank, the total deposits of all the banks taken together remain unchanged so long as there is no change in the cash ratio and no change in the total of bank cash. The proposition is as simple as the purely arithmetical statement that 10 times one is always 10. It would be wasting time to press the point, were it not for the fact that quite a number of monetary theories have been based on the supposed unrestricted power of the banks to increase deposits at will. But, in truth, variations in the quantity of money depend upon variations in the quantity of bank cash, and over bank cash the banks themselves have no power." **Statement by Rt. Hon. Reginald McKenna**

46. Q.—What about the old story that banks create deposits with a fountain pen? **"Fountain Pen" theory**

A.—Mr. Towers was questioned about that, too, and said in reply: **Mr. Towers' reply**

"I do not think that the fountain pen reference is a very satisfactory one. After all, we are dealing with a serious subject on which I do not suppose anyone wants people to obtain wrong impressions. I suppose, with due respect to the King's Printer, I could refer to all the laws of this country as pen and ink laws, but if I went out and tried to break them and said in court, 'It was only a pen and ink matter,' I would not get very far with the judge. **These are real transactions which take place in banks. These are serious liabilities which they assume."**

47. Q.—Could you summarize all that?

Summary

A.—Yes. When banks make loans that give rise to deposits, they merely create **liabilities which they must meet on demand** and which therefore must be secured by credit-worthy assets.

48. Q.—About this regulation of credit and currency—what then becomes of the doctrine we so often hear from uninformed critics of the banking system—that the money supply and the volume of available credit are in the sole control of the chartered banks?

Banks do not control money supply

A.—The banks have no such sole control. The quantity of money in the country and the volume of available credit are matters affected by a number of things, including national monetary and fiscal policy given effect through the Bank of Canada which is the nation's government-owned central bank; and the willingness and ability of borrowers to borrow for their enterprises.

49. Q.—Does not all you have told me put an end to any idea that the chartered banks create booms and depressions?

Booms and depressions

A.—It certainly does. The chartered banks simply follow the rules of a modern, managed monetary system.

50. **Q.—Would it be correct to say that Canadian war finance which affected the volume of money involved some inflation?**

A.—Canada's war effort was financed to the greatest possible extent by taxation. After that, any deficiency between government's revenues from taxation and the amount called for by the needs of war was supplied as far as possible by selling Victory Bonds to the Canadian people—in effect borrowing from real savings which the people took out of the banks to buy Victory Bonds or which, by payroll deductions, they relinquished out of current income instead of spending on goods. All this was anti-inflationary, and Canada's handling of her wartime financial problems will stand comparison with any other nation in the world. Nevertheless, a moderate gap still remained, the filling of which could only be done by creating new money, sometimes referred to as a degree of inflation. Generally speaking, this gap was bridged by selling to the banks short-term government issues bearing very low interest rates. A principal instrument in this category was known as "Certificate of Deposit," a six months' obligation sold to banks only; it earned only ¾ of one per cent for the banks. Most of the Certificates of Deposit issued to bridge this gap have since been retired. War financing

51. **Q.—Suggestions are sometimes heard that the federal government should do all its financing through the Bank of Canada, either by printing and issuing Bank of Canada notes or borrowing from the Bank of Canada. What have you to say to that?**

A.—The short answer is that borrowing from the Bank of Canada is far more inflationary than borrowing from the chartered banks. Government financing through Bank of Canada

52. **Q.—Why is that?**

A.—When the government borrows from the chartered banks, new purchasing power is created but only to the extent of the loan. Borrowing from the Bank of Canada imposes no such limitations.

53. **Q.—So that those who would have the nation meet its expenses simply by printing money and paying it out—**

Inflation would result

A.—Are asking for runaway inflation, whether they know it or not. Inflation would be the inevitable, bitter consequence.

54. **Q.—Can you give examples of runaway inflation?**

Examples of runaway inflation

A.—Yes—the total wiping out of money values in the runaway inflation in Germany after the first Great War; the complete destruction of all values in Russia after the revolution, and the more recent examples in Greece and China.

55. **Q.—Who loses in a runaway inflation?**

Losers in inflation

A.—The first losers are the wage-earners and people on small, fixed incomes, such as pensions, who find the purchasing value of their money practically wiped out. The people who are hit first and worst are those who can least afford it.

56. **Q.—Can anybody win in an inflation?**

Few winners in inflation

A.—Very few who can switch their investments into real property and real goods can benefit out of the general ruin of the rest of us. Runaway inflation is the most diabolical cruelty that can be inflicted upon a people.

57. **Q.—Some so-called reformers have repeatedly set afloat the idea that banks not only create deposits with a fountain pen but**

then proceed to loan these deposits over and over. Is this a fallacy?

A.—Decidedly it is a fallacy. As we have already shown, deposits are liabilities, and you cannot lend liabilities. A bank cannot lend as much as it has in deposits. The governor of the Bank of Canada, testifying before the Banking and Commerce Committee of the House of Commons during the revision of The Bank Act, on May 23, 1944, covered the subject thus:

Cannot lend liabilities

Loans and investments less than deposits

> "The banks' . . . loans and investments will never be as large as the amount deposited with them because they have to keep a certain percentage of their deposits in the form of cash. That is really the famous 'ratio' we hear about, but I think there is some feeling that in fact bank loans and investments exceed their deposits, that they lend money they have not got. Of course, that is not the case and it is a misconception which it would be very helpful to remove."

Mr. Towers' statement

58. **Q.—Nationalization of banks is a primary socialist objective. Presumably its advocates must believe it would produce certain benefits. What would socialists gain by nationalizing the banks and thus creating a state monopoly?**

Socialists and the banks

A.—They wish to use state banking as a monopoly device to force business men and everybody else to follow the socialist dictates and policies. All you have to do is look up the socialist platform in which the socialists declare:

> "Control of finance is the **first step** to the control of the whole economy."

They also say in their socialist literature:

> **"A nationalized banking system would be useless taken by itself."**

59. Q.—Just how should that be interpreted?

Taking over banks only first step

A.—It can only mean that what is really proposed is not merely taking over the banks —not by any means. Taking over the banks is only the **first step**—to use the socialists' own words. They say, too, that unless they can socialize the whole economy, the banks "might as well be left alone."

60. Q.—But taking over the banks would be a very important "first step" toward socialism, would it not?

Effect on industry

A.—Decidedly. Once the banks were firmly under socialistic control, credit policy could be used to affect, direct, or even to stop the operations of any industry.

61. Q.—That is what you say. But do the advocates of nationalized banking really have such sweeping changes in mind?

A.—Definitely they do. Here is a quotation from "Social Planning for Canada," page 250: "The first necessity of a socialist program is the deliberate control of our financial machinery . . ."

Here is another quotation from the same book, page 306, which shows the sweeping nature of the changes that are planned to be brought about by nationalization:

> "The banking system as a whole will discriminate between areas and industries in conformity with the national plan. Thus, if it were felt that mixed farming should be encouraged in certain localities—possibly at the expense of the newsprint industry—the banking system would act accordingly."

62. Q.—And what is the real effect of all this?

Total regimentation

A.—To turn Canada into a totally regimented socialistic state.

63. **Q.—If the banks were nationalized, would there still be competition?**

A.—Of course not. Ten chartered banks competing with each other are the very opposite of a state monopoly. They are not a monopoly at all. Roll them all into one by nationalization and you have state monopoly. Who and what would it compete with? No competition if banks nationalized

64. **Q.—Right now suppose I apply to one of the 10 chartered banks for a loan and am refused?**

A.—If you feel that your proposition has not received the consideration it deserves you are free to apply to any one of nine other competing chartered banks, and that bank will, of course, look into the matter quite independently. All of them are anxious to obtain good loaning business. Choice of ten banks

65. **Q.—Could I do this under nationalization?**

A.—If there were only one nationalized bank, where could you go?

66. **Q.—Under present conditions also, if I have any reason to complain of the service I receive in any respect from the bank of of my choice . . .**

A.—You can always take your business elsewhere and no bank likes to lose business to a competitor.

67. **Q.—But under nationalization . . .?**

A.—If, as a borrower or as a customer in any other capacity, you were dissatisfied with your treatment at the state bank, where else could you go? There would be only one bank—the nationalized bank, run as a government monopoly. Your bank manager would be a state official. His decisions would be determined by socialist government policy. If you did not like it, there would be nothing you could do about it. One bank only!

68. **Q.—Under such conditions could I be sure that my banking transactions would remain of the same strictly confidential nature they are now or would be handled with the same speed and efficiency?**

A.—What do you think?

69. **Q.—Can you give any example as to what this direction of credit would mean to the farmer?**

Effect on farmer

A.—The situation is expressed by the socialist leaders in their book "Make This Your Canada" (page 162):

> "Every article produced will be used to answer the need of the people of Canada or some other part of the world. No one except the people as a whole will make a profit out of it, for should it be decided that tobacco, for example, should be sold at a profit, the surplus will be available for social services or other public expenditures."

70. **Q.—Did you say "tobacco for example"?**

Producer might not share in profit

A.—Yes, that is the exact quotation. In the place of tobacco you could substitute wheat, meat, cattle, butter, oats, barley, hogs, apples, fish, lumber. The producer gets no break at all. After taking his products away from him at a price determined by the socialist planners, such a system could sell the goods at a profit and the man who produced the goods would not share in that profit at all, if the planners wanted to use the money for other purposes.

71. **Q.—Can anybody consider it wise or safe to make such sweeping changes as nationalization of banks would entail? Is not the business of looking after other people's money a rather delicate proposition?**

Lord Macmillan's statement

A.—Lord Macmillan, as chairman of the Royal Commission on Banking in Canada, which gave rise to the formation of the Bank of Canada, answered that question years before you asked it. Writing as early as 1933 of experiments in the realm of banking he said: "Unfortunately there is no laboratory in which such experiments can first be tried. They can only be tried upon the lives and fortunes of human beings and if they fail, they may be productive of untold misery." He added, "The mechanism of finance is a delicate one; the confidence upon which it is based is a slow growth, but it may be destroyed overnight—**and those to whom is entrusted the responsibility for the welfare of the people must proceed with caution in the adoption of changes."**

72. **Q.—If, after having tried it, the people were to decide later that they did not like state monopoly of banking after bringing it about, could they turn back to our present system?**

A.—It is impossible to unscramble eggs. The present competitive system is the result of generations of patient and careful building. If destroyed by political action, can it be expected that brains and capital will again take the risk of having a lifetime of work and savings swept away?

Cannot unscramble eggs

73. **Q.—What are bank cash reserves?**

A.—Every bank retains in cash (that is deposits in the Bank of Canada or notes of the Bank of Canada) an amount equivalent to about 10 per cent of its deposit liabilities to the public.

Cash reserves

74. **Q.—Why 10 per cent?**

A.—The governor of the Bank of Canada gave a very practical answer to this in 1939 which is as good today as it was then. It is as follows:

10 per cent result of experience

Mr. Towers' statement

"If someone were to ask me why the chartered banks try to maintain a 10 per cent cash reserve instead of five per cent or 15 per cent or some other figure, I could only reply that the working experience of many years has indicated that 10 per cent is a reasonable ratio which provides sufficient cash to cover any immediate demands but is not so high as to constitute an unnecessary burden in the form of non-earning assets."

75. Q.—You have mentioned that the first concern of a bank is the safeguarding of its depositors' funds. How is that done?

How banks safeguard depositors' funds

A.—A bank must so conduct itself as to be prepared to pay any depositor all or any part of his deposit. The Bank Act provides certain fundamental safeguards and the legal basis of banking practice. First of all The Bank Act requires banks to keep five per cent of the total amount of their deposits in the form of Bank of Canada bills or deposits in the Bank of Canada. Notwithstanding the fact that the law requires the banks to keep only five per cent of their deposits in this cash form, in actual practice they keep about 10 per cent of their deposits in cash—the cash reserves we have previously described.

76. Q.—Please continue to tell how the banks safeguard the depositors' funds.

A.—After keeping about 10 per cent of their deposits in cash, twice the amount required by statute, earning nothing at all, a further percentage of depositors' funds is kept in short-term investments upon which the yield is low because the securities in which these funds are placed will mature at short date. They are readily convertible into cash. After that comes investment in bonds of medium-term, and after that the well-understood business of lending to individuals, businesses, industries, municipalities, school districts and governments. You will note that a high degree of liquidity is provided as a safeguard for deposits. The normal lending risks of ordinary commercial banking are undertaken against this background.

77. **Q.—That is perhaps the basis of the implication sometimes heard that banks prefer to invest in government bonds rather than to make commercial loans?**

A.—That may be the basis, but the implication is wholly untrue. A bank earns anywhere from a mere fraction of one per cent on readily convertible government securities up to something under 3 per cent on longer-term government bonds. The average yield on a bank's portfolio of government securities is about 2 per cent. On the other hand the yield from loans because of the greater element of risk involved is higher than the return from government securities. Naturally the banks would prefer to make the more profitable commercial loans rather than to invest in government bonds which yield very much less. **Loans preferred by banks**

78. **Q.—Earlier, you mentioned safety deposit boxes. What are their uses?**

A.—To store bonds, stocks, insurance policies, documents and valuables such as jewellery. **Safety deposit boxes**

79. **Q.—Does the bank manager know the contents of a safety deposit box?**

A.—No. Nor does any member of his staff.

80. **Q.—Should a safety deposit box be used to hold cash?**

A.—No. Cash should be deposited in a bank account.

81. **Q.—How can I protect myself from loss in the case of my safety deposit box?**

A.—Your best way of protecting yourself from loss is (a) deposit your cash in your bank account; (b) have your bonds fully registered, or at least registered as to principal; and (c) keep a record of everything in your box—particularly the serial numbers of your bonds.

82. **Q.—Are such boxes insurable?**

A.—Many people who hold safety deposit boxes take the precaution of insuring the contents. There are insurance companies that make a regular business of this type of risk. As a bank has no knowledge of what is in each box how could it insure the contents?

83. **Q.—Is there any other type of safekeeping?**

Safekeeping of securities

A.—Yes, your bank provides a safekeeping service for securities and other valuable documents. This service includes the clipping of interest coupons as they mature, and crediting the proceeds to your account.

84. **Q.—To turn to another subject—are the banks large employers of labor?**

41,616 employees

A.—Yes. Their employees at October 31, 1948, from coast to coast, numbered 41,616, 50 per cent of them women. The pre-war percentage of women on bank staffs was only 21.7 per cent.

85. **Q.—What is the total payroll of the banks?**

$87 millions in salaries and wages

A.—Banks paid in wages and salaries to their staffs $87,242,000 during 1948. The figure in 1939 was $39,000,000. In addition to this payroll, the banks make large contributions to pension funds to take care of their employees in their old age.

86. **Q.—Do banks pay taxes?**

$19,491,000 in taxes

A.—In 1948 they provided for Dominion, provincial, municipal and other taxes

$19,491,000. In 1939, pre-war, they paid $9,400,000. The increase is 107.35 per cent.

87. Q.—Would they pay taxes if nationalized?

A.—No. Government corporations are exempt.

No taxation if nationalized

88. Q.—What about municipal taxes—government properties being exempt, what amount of money would villages, towns, cities and rural municipalities lose?

A.—The banks paid in 1948 $4,514,321.81 in taxes to municipalities. A government monopoly would pay nothing. The municipalities would lose in yearly tax-revenue (based on 1948) $4,514,321.81.

Loss to municipalities

89. Q.—When you add payroll, taxes and interest to depositors all together for a year, then what is the figure?

A.—More than $152,000,000.

Costs money to run banks

90. Q.—You mean that before the shareholders receive any dividends at all the banks must be prepared to pay to employees, taxing bodies and depositors more than $152,000,000?

A.—Exactly so—to put it perhaps more simply, the banks pay out about $10.20 in wages, taxes and interest for every dollar they pay to the shareholders.

Shareholder last to benefit

91. Q.—And they have other expenses, too, of course?

A.—Yes—all of the ordinary current expenses of other concerns doing business, such as stationery, printing, light, water, fuel, power, rent and the like. These expenses amount to a very large sum.

Other expenses

92. Q.—What is the round figure banks pay out in dividends as contrasted with the amount they pay out in large cost items such as you have described?

Dividends $14,895,000

A.—In 1948 $14,895,000—a return of only $4.31 on each $100 the shareholder has in the business.

93. **Q.—Criticism of so-called "interlocking directorates" is offered from time to time—that is to say, that directors of large concerns are also directors of banks, and vice versa. What is the answer?**

Interlocking directorates

A.—Business success can be taken as evidence of business capacity and judgment. Business success is not disreputable—at any rate not yet, in a free country. So it is that the counsel and judgment of competent men of affairs is in great demand. They are called upon by wise management and by shareholders to give a bank the benefit of their business experience. No bank director is a director of any more than one bank. There is no overlapping of that kind. Sometimes, too, a capable banker is sought as a director on some industrial board. And bankers or bank directors are but a minority on such boards.

94. **Q.—Does "interlocking" tend toward channelling credit to the companies or interests represented by a director?**

Loans to directors

A.—Very definitely not. A high ethical code governs, and is paralleled by a provision in The Bank Act which prohibits a bank director from being present when a credit to a company in which he is interested is under consideration by the board. Furthermore, returns have to be made to the Minister of Finance, and these are published officially, showing for each bank the aggregate amount of loans made to directors and firms of which they are partners, and loans for which they are guarantors. Thus the director is actually under a measure of handicap as compared with other borrowers.

95. **Q.—Do such loans form any sizeable percentage of the banks' total loans?**

A.—No. The amounts are so small relatively as to make quite absurd any suggestion of directors steering credit to themselves. The published returns of the Minister of Finance—and here is a typical one (September 30, 1948)—show that out of total loans aggregating $1,930,000,000, loans to directors or firms in which they are partners or loans for which they are guarantors, amounted to only $9,830,000. That is about the usual ratio—only about one-two-hundredth of the total loans made by the banks. **Returns to Minister**

96. **Q.—What are the employment conditions in the chartered banks?**

A.—"Social security" is a comparatively new phrase in the vocabulary of politics, but it is no new thing to the employees of the chartered banks. Socialism is not a prerequisite of social security. Free enterprise can provide it, and does. When a junior joins a bank he is given a reasonable time to show his aptitude. If he is then found to have no aptitude for banking, he is told so and is given a reasonable time to find other employment. Banks provide a good deal of money, in addition to the contributions of the staffs themselves, to remove from employees: **"Social security" for bank employees**

(1) Fear of unemployment.
(2) Unemployment through sickness and disability.
(3) A penniless old age.

Year-round employment, vacations with pay, payment during absence through illness, contributory old age and disability pensions, coupled with good conditions of apprenticeship, opportunity for advancement and a justified sense of permanency, combine to make bank work congenial to the employee.

97. **Q.—In addition to the banks' and their employees' own pension plans, do they also contribute to the federal government's unemployment insurance scheme?**

A.—Decidedly yes. However, there never has been a pool of unemployed bankers. The number actually released from employment during any year is remarkably small. Abrupt dismissals, except for cause, are avoided, the bank bearing the expense of continuing the employment for a time in all such cases, and often paying a gratuity to the employee being released.

98. **Q.—What did the banks do in the case of employees who enlisted in the war?**

8,403 enlistments

A.—The number of bank employees in the armed services was 8,403. During the time they were away, their seniority, promotions and salary increases and pension rights were maintained and protected just as if they had never left. The bank employee demobilized after the war was taken back at the salary and rank which would have been reached if he had not joined the services. This applied to both men and women.

99. **Q.—In some respects bank earnings are limited or restricted, but your costs go on?**

Earnings limited, costs go on

A.—Yes. You have been told about wage costs, taxes and interest on deposits, and about some of the other costs. In addition, banks contribute heavily to pension funds and to group insurance and to unemployment insurance for their employees. Depreciation on bank buildings takes quite a large sum each year and banks must also provide for "bad and doubtful debts." These costs are regardless of limitations on classes of bank earnings that we have mentioned.

100. **Q.—Roughly how many customers do the banks serve?**

A.—As of 1948 there were 7,551,058 individual deposit accounts in the 10 chartered banks put together. 6,605,952 of these were individual savings accounts, and the rest current accounts. This compares with the total of 4,846,016 deposit accounts in 1939. In pre-war 1939, Canadian deposits of all kinds amounted to $2,850 millions and in 1948 to $6,842 millions.

7,551,058 deposit accounts

$6,842 millions deposits

101. Q.—Then you are serving more people than ever before?

A.—Yes, that is because the war brought more people into the banks. We have millions more customers than before the war. More than 3,000,000 men and women obtained delivery from their banks of the Victory Bonds they bought. Many lodged them with us for safekeeping. We cut their coupons and credit the proceeds to what in many cases are new savings accounts, and these people have become regular customers. Pay cheques for the armed forces and dependents' allowance cheques, which we negotiated without charge, brought many more people into friendly banking premises. Family allowance cheques brought many more women into the banks. We cash these and all official cheques without charge. More people are passing to and fro, in and out of the banks daily than ever in the history of banking. The people are coming to know better the banks and the services they render.

More customers since war

102. Q.—What were the main changes effected in The Bank Act as a result of the 1944 revision by Parliament?

A.—The revisions were extensive. They were made primarily to give the Canadian people a broader banking service. Notable among the revisions were:

Changes in 1944 revision

Interest rate reduced

(1) The maximum legal rate of interest or discount was reduced from seven per cent to six per cent.

Note issue terminated

(2) After 1st January, 1945, the chartered banks could not reissue any of their outstanding notes and 30 days after 1st January, 1950, each bank is to pay the Bank of Canada a sum equal to the amount of its Canadian notes still outstanding at that date. This will complete the passing of the right of issue to the Bank of Canada exclusively.

Loans under section 88

(3) Simplifications were made in section 88 of the Act, permitting loans to be made on the security of goods and merchandise in the possession of the customer, and to embrace security for intermediate farm loans to be made under The Farm Improvement Loans Act, 1944. It was also provided that in certain specified cases of longer-term loans under The Farm Improvement Loans Act mortgage security could be given.

Unclaimed balances

(4) Unclaimed balances, after accounts have been inactive for 10 years, to be transferred to the Bank of Canada which is to maintain the liability to the depositor or his heirs.

Par value now $10

(5) Bank shares which had a statutory par value of $100 to be divided into 10 shares each with a statutory par value of $10.

Return of earnings and expenses

(6) The Minister of Finance to place before Parliament annually a statement of operating earnings and expenses and other information regarding the 10 chartered banks.

General contingent or loss reserves

(7) The Minister of Finance to report to the Minister of National Revenue

for taxation purposes any contingent or general loss reserves which in any bank seem to him to be excessive.

103. Q.—Did the revision improve the farmer's borrowing position?

Farm Improvement Loans Act

A.—Certainly. Parliament which passed the revised Bank Act also passed collateral legislation known as The Farm Improvement Loans Act, which operates through the chartered banks. It is another instance of chartered banks' cooperation with the government, effecting a longer-term lending service for a wider range of farm purposes. The Act enabled farmers to provide security not previously sanctioned by The Bank Act and thus enabled the banks to make longer term loans. In addition the government provided a marginal guarantee. This legislation made it possible for any farmer or farm tenant engaged in general tillage of soil, or raising livestock, or engaged in dairying, or horticulture, to take advantage of the wider service. A farmer may borrow up to $3,000, at a maximum interest cost of five per cent simple interest per year, and for certain types of loans a maximum maturity of 10 years is permitted. The farmer may use the money to:

(1) purchase agricultural implements or livestock, including fur-bearing animals;

(2) purchase or instal agricultural equipment or a farm electric system;

(3) erect fences or construct drainage;

(4) construct, add to, alter or repair farm buildings or structures (including farm houses);

(5) instal sewerage systems, clear and break land.

104. Q.—The banks did great and substantial services during the war. They showed themselves flexible enough to meet every wartime need of the nation. What about the period of reconversion and peace?

Banks role in reconversion and peace

A.—The banks proved equally flexible in serving the nation's demands in post-war reconversion and afterwards. They are thoroughly alive to the significance and importance of their present and future role as a vital factor in the economy. The commercial banking system has been a leading factor among those that have helped place the Canadian standard of living and way of life among the best in the post-war world. Canadians have confidence in their banks. Five times in recent memory the banks have been put to the acid test: the crash of world markets in 1929; Britain abandoning the gold standard in 1931; the closing of every bank in the United States and the "bank holiday" of 1933 while Canadian banks carried on unmoved; the outbreak of war in 1939; and reconstruction and reconversion following 1945. During all these tests no Canadian has had to fear for the loss of a single dollar of his bank deposit. The system has proved sound and safe under every test.

A FINAL WORD

Viscount Snowden, Britain's famous socialist Chancellor of the Exchequer, wrote in 1935:

"So long as industry is carried on by private enterprise, the banks must be free from political control so that they can give credit impartially on the merits of every application. If there were only one bank, traders would be at its mercy whereas now competition among a number of joint stock banks gives the depositors and borrowers a choice and a greater likelihood that their desires will be gratified."

INDEX

INDEX Continued

INDEX — Continued

THE CANADIAN BANKERS' ASSOCIATION